



OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: S.B. 85 of the 132nd G.A.

Status: As Introduced

Sponsor: Sen. Huffman

Local Impact Statement Procedure Required: Yes

Subject: Creates the Opportunity Scholarship

State and Local Fiscal Highlights

- The bill replaces the Educational Choice Scholarship Pilot Program (EdChoice) and the Cleveland Scholarship Program with a new income-based scholarship program titled the Opportunity Scholarship. Existing EdChoice and Cleveland scholarship recipients qualify for an Opportunity scholarship regardless of family income.
- The bill finances Opportunity scholarships through direct GRF payments rather than deductions of the state foundation aid allocated to the student's resident district. Scholarship recipients will not be counted in their resident district's student count for state foundation funding purposes.
- Statewide, an estimated 74% of children come from family incomes below 400% of the federal poverty guidelines, the threshold to qualify for an Opportunity scholarship. A total of 1.08 million public regular education students are estimated to be eligible for Opportunity scholarships. Hypothetically, if all such students opt for the new scholarship, net state costs would be roughly \$1.19 billion per year.
- Usage of the scholarship program in its initial years is likely to be much lower but will likely increase over time. Participation rates between 2.5% and 10% result in net annual state costs ranging from \$45 million to \$133 million. Ultimately, the cost of the program will depend on state appropriation levels.
- Because the state's school funding formula is based on enrollment, school districts with students who take the scholarship are likely to lose state aid. Over time, the reduction could be substantial, but ultimately would depend on participation rates. School district expenditures may decrease due to educating fewer students.
- The bill creates education savings accounts for each Opportunity scholarship student whose scholarship amount exceeds the student's tuition and fees. The bill requires the Treasurer of State (TOS) and the Ohio Department of Education (ODE) to maintain the accounts and perform certain administrative and reporting duties. These requirements will increase the administrative costs of TOS and ODE.

Detailed Fiscal Analysis

Beginning in the 2018-2019 school year, the bill replaces both the traditional and income-based Educational Choice Scholarship Pilot Program (EdChoice) and the Cleveland Scholarship and Tutoring Program (CSTP) with a new, income-based scholarship program entitled the Opportunity Scholarship Program. While the Opportunity Scholarship Program is similar to the income-based EdChoice Program, it differs in a number of important respects. An overview of the current and proposed scholarship programs is provided below followed by a discussion of the potential fiscal effects of the new scholarship program and the process LSC used to calculate them.

Overview of EdChoice and Cleveland scholarship programs

The EdChoice Program awards scholarships that students use to attend participating nonpublic schools. A student may qualify for the traditional EdChoice program if they attend or would otherwise attend a school district that meets certain criteria indicative of poor academic performance. All traditional scholarship students are counted in their resident district's student count for the purposes of calculating funding through the school foundation formula. The scholarships are financed by deductions to the state foundation aid of scholarship recipients' districts of residence. Under current law, the scholarship amount is the lesser of tuition or \$4,650 for students in grades K-8 and \$6,000 for students in grades 9-12. EdChoice scholarships are also provided to certain low-income students, regardless of the performance of their public school. However, these scholarships are currently paid for directly from the GRF, not through a deduction of school district foundation aid. Under current law, income-based scholarships are phased-in by one grade level per year, such that, in FY 2017, only income-eligible students in grades K-3 qualify. In general, income-based scholarships are limited to students whose family income is at or below 200% of the federal poverty guidelines.

The Cleveland Scholarship Program, also known as the Pilot Project Scholarship Program, provides scholarships to students who are residents of the Cleveland Municipal School District to attend a participating nonpublic school. The program serves students in grades K-12, giving priority to students from low-income families. Scholarships are based on a school's tuition cost, with a maximum scholarship of \$4,250 for students in grades K-8 and \$5,700 for students in grades 9-12. CSTP is financed by both deductions of Cleveland's state aid and direct state payments from the GRF.

In FY 2017, there are about 37,000 recipients for the three scholarship programs combined, totaling approximately \$185 million in state foundation aid and direct GRF appropriations.

Opportunity Scholarship Program

Overview

The bill creates the Opportunity Scholarship Program to provide scholarships for students in grades K-12 who meet certain income eligibility criteria to pay the tuition and fees to attend chartered nonpublic schools. The scholarships will be funded directly by GRF appropriations. As a result, students who receive the scholarship will not be counted in their resident district's average daily membership (ADM) for funding purposes. The bill does not impose a statutory limit on the number of Opportunity scholarships that may be awarded each year, but the number could be limited based on the amount the General Assembly chooses to appropriate for the program. Additional details concerning scholarship eligibility and award amounts are described below.

Eligibility

To qualify for an Opportunity scholarship, a student must have a family income at or below 400% of the federal poverty guidelines (FPG) and cannot have been enrolled in a chartered nonpublic school in the school year prior to the year for which an Opportunity scholarship is sought. The far right column in Table 1 below shows the income levels under which a student may qualify for a scholarship based on their family size. Notwithstanding these income eligibility requirements, the bill qualifies all students who received a traditional or income-based EdChoice or Cleveland scholarship during the 2017-2018 school year and students who have a sibling who received such a scholarship during that school year for an Opportunity scholarship, regardless of family income.

Number of Persons in Family/Household	Poverty Guideline	200% of Poverty Guideline	400% of Poverty Guideline
2	\$16,240	\$32,480	\$64,960
3	\$20,420	\$40,840	\$81,680
4	\$24,600	\$49,200	\$98,400
5	\$28,780	\$57,560	\$115,120
6	\$32,960	\$65,920	\$131,840
7	\$37,140	\$74,280	\$148,560
8	\$41,320	\$82,640	\$165,280

Under the bill, a student who receives the Opportunity scholarship remains eligible and may continue to receive the scholarship in subsequent school years until the student completes high school, so long as the student meets certain conditions. In order to continue receiving the scholarship, a student's family income must not exceed 400% of FPG, unless the student previously received the EdChoice or Cleveland scholarships or is a sibling of such student. Additionally, each recipient of the

scholarship must take each state assessment prescribed for the student's grade level and not be absent for more than 20 days of the school year, excluding excused absences.

Scholarship amounts

Under the bill, the annual Opportunity scholarship amount awarded to a student is based on the student's family income and grade level. The maximum amount of the scholarship is \$5,000 for students in grades K-8 and \$7,500 for students in grades 9-12. However, if the per-pupil formula amount used to calculate state foundation aid increases in a subsequent school year, the bill requires the maximum scholarship amounts to increase by the same percentage as the formula amount. Any student who received an EdChoice or CSTP scholarship, or had a sibling who received one of the scholarships, in the 2017-2018 school year receives the maximum scholarship amount, regardless of family income.

For students who qualify for the Opportunity scholarship based on family income, the scholarship amount is based on the student's family income as a percentage of FPG. A student with a family income at or below 200% of FPG receives the maximum scholarship amount. A student with a family income between 200% and 400% of FPG receives a scaled scholarship amount that is reduced by 0.5% for every 1% increase in the student's family income above 200% of FPG. A student with a family income at 400% of FPG receives half the scholarship amount (\$2,500 for grades K-8 and \$3,750 for grades 9-12). The scholarship amounts for the Opportunity scholarship are summarized in Table 2 below.

Table 2. Opportunity Scholarship Amounts		
Type of Recipient	Grades K-8	Grades 9-12
Student or sibling of student who received the EdChoice or CSTP scholarship in the 2017-2018 school year	\$5,000	\$7,500
Student with family income at or below 200% of FPG	\$5,000	\$7,500
Student with family income between 200% and 400% of FPG	Scholarship amount is reduced by 0.5% for every 1% increase in the student's family income above 200% of FPG	
Student with family income at 400% of FPG	\$2,500	\$3,750

To illustrate how the scholarship amounts will be determined, consider the following example of an elementary school student in a family of three with a family income of \$61,260. This income level represents a 50% increase above the 200% FPG threshold of \$40,840 for the student's family size. Thus, the student will receive a scholarship that is 25% lower than the full amount, or \$3,750 ($\$5,000 \times (1 - (0.5\% \times 50)) = \$3,750$). Scaled scholarship amounts for a family size of three at various family incomes are provided in Table 3 below.

Table 3. Selected Opportunity Scholarship Amounts Based on Income			
Family Income	Percent increase in income above 200% FPG	Scaled Scholarship Amount for Grades K-8	Scaled Scholarship Amount for Grades 9-12
\$40,840	0%	\$5,000	\$7,500
\$51,050	25%	\$4,375	\$6,563
\$61,260	50%	\$3,750	\$5,625
\$71,470	75%	\$3,125	\$4,688
\$81,680	100%	\$2,500	\$3,750

Unlike the scholarship amounts under the state's existing scholarship programs, which are limited to the tuition and fees charged by the participating private provider, the bill requires the Ohio Department of Education (ODE) to pay any excess scholarship amount after covering the tuition and fees of the chartered nonpublic school into an educational savings account. Educational savings accounts are discussed further below.

Fiscal effects

The cost for the Opportunity Scholarship Program depends on a variety of factors, including the number of students eligible for an Opportunity scholarship based on family income and opting to participate, the number of existing scholarship recipients that will participate in the new program, and the difference in cost between the Opportunity scholarship and the amount of per-pupil formula aid currently paid by the state for scholarship recipients through the state foundation formula. Each of these factors is discussed in more detail below. The first part of this analysis discusses the underlying assumptions and costs associated with "full participation" in the program. That is, the cost associated with providing a scholarship to all regular education students who are eligible (special education students are assumed to not participate because the existing Jon Peterson Special Needs and Autism scholarship programs offer higher maximum scholarship amounts). These figures estimate the state's total annual liability for the program if the state were to appropriate all of the funds necessary for full funding. However, since scholarship usage will likely be significantly lower, especially in the initial years of the program, these figures may also be helpful in understanding the potential long-term fiscal effects of the program as awareness of the program builds over time. The second part of the analysis provides estimated annual fiscal effects under hypothetical scenarios where participation is much lower than 100% to shed light on potential costs in the initial years of the program.

Full participation

Eligible students based on family income

LSC used school district-level income data collected through the U.S. Census Bureau's American Community Survey (ACS) to estimate the total number of Ohio public school students that are eligible for the Opportunity scholarship based on family income. Statewide, this data indicates that roughly 74% of Ohio children ages 6-17 have family incomes below 400% of FPG, including about 42% under 200% of FPG, 18%

between 200% and 299% of FPG, and 14% between 300% and 399% of FPG. To calculate the total number of eligible public regular education students by grade band, LSC applied the percentage of children ages 6-17 in each of these three income brackets in each district to the district's FY 2017 student count for funding purposes (formula ADM) minus the district's total special education ADM and number of EdChoice and Cleveland scholarship students included in formula ADM. We then multiplied these amounts by the percentage of each district's students in grades K-8 and 9-12 indicated by the district's enrollment data reported to ODE for FY 2016. Overall, we estimate that 1.04 million "new" public regular education students would be eligible for an Opportunity scholarship based on family income in FY 2017. Table 4 below shows the estimated number of eligible students by income bracket and grade band.

Table 4. Estimated Number of Public Regular Education Students Income-Eligible for the Opportunity Scholarship			
Income Level	Grades K-8	Grades 9-12	Total
Students at or below 200% of FPG	417,770	172,128	589,898
Students between 200% and 300% of FPG	179,968	75,705	255,672
Students between 300% and 400% of FPG	139,270	59,212	198,482
Total	737,008	307,045	1,044,053

Scholarship costs for "new" recipients based on income

The vast majority of the cost of the Opportunity Scholarship Program will come from scholarship payments for students who are not currently receiving an EdChoice or Cleveland scholarship and thus, are eligible for the program based on family income. As described above, there are an estimated 1.04 million public regular education students in Ohio that are eligible for the program. We estimated the maximum cost of the scholarship program by assuming that all such students opt to take an Opportunity scholarship (i.e., a participation rate of 100%). Scholarship costs for these students were calculated on a school district level by first disaggregating the number of income-eligible students in each of three income brackets for which we have data and then by grade band. The number of income-eligible students in each income bracket and grade band was then multiplied by an applicable scholarship amount. As noted above, the bill provides students at or below 200% of FPG with the maximum scholarship amount. Students with family incomes between 200% and 400% of FPG receive a scaled scholarship amount. The scholarship amounts for students above 200% of FPG are based on the midpoint scholarship amount in each of the two applicable income brackets. Specifically, the Opportunity scholarship at 250% of FPG is \$4,375 for a student in grades K-8 and \$6,563 for a student in grades 9-12. The Opportunity scholarship at 350% of FPG is \$3,125 for a student in grades K-8 and \$4,688 for a student in grades 9-12. Overall, we estimate the annual cost of paying Opportunity scholarships for all income-eligible public regular education students to be \$5.38 billion. Table 5

below summarizes the aggregate costs and average scholarship amounts per pupil by income bracket.

Table 5. Estimated Aggregate and Average Per-Pupil Cost of Opportunity Scholarships for All Income-Eligible Students by Income Bracket			
Income Level	Income-Eligible Students	Total Annual Cost (in millions)	Average Scholarship Cost Per Pupil
Below 200% of FPG	589,898	\$3,379.8	\$5,729
Between 200% and 299% of FPG	255,672	\$1,284.2	\$5,023
Between 300% and 399% of FPG	198,482	\$712.8	\$3,591
Total	1,044,053	\$5,376.8	\$5,150

Eligible students currently receiving EdChoice and Cleveland scholarships

In addition to eligibility based on income, the bill automatically qualifies students receiving either the EdChoice or Cleveland scholarship in the 2017-2018 school year for an Opportunity scholarship in the next school year and does not subject their scholarship amounts to the bill's income scale for new scholarship recipients. That is, existing EdChoice or Cleveland scholarship students receive the full amount of the Opportunity scholarship, regardless of income. Statewide, there are approximately 37,000 students receiving the scholarships in FY 2017. The number of current scholarship recipients by program and grade band is summarized in the table below.

Table 6. Current Scholarship Recipients by Program and Grade Band, FY 2017			
Scholarship Program	Grades K-8 Recipients	Grades 9-12 Recipients	Total Recipients
Traditional EdChoice Scholarship Program	17,018	4,546	21,564
Cleveland Scholarship Program	5,862	2,736	8,598
Income-based EdChoice Scholarship Program*	6,774	0	6,774
Total	29,654	7,282	36,936

*Based on the FY 2017 appropriation divided by the maximum scholarship amount. In FY 2017, only income-eligible students in grades K-3 are eligible for income-based EdChoice scholarships.

Scholarship costs for current scholarship recipients

Because the bill grandfathers existing EdChoice or Cleveland scholarship students into the new program regardless of income, this analysis assumes that all current scholarship recipients will choose to receive the Opportunity scholarship. Overall, LSC estimates the total annual Opportunity scholarship cost for existing scholarship recipients to be approximately \$202.9 million.

Total scholarship costs

Including the grandfathered EdChoice and Cleveland scholarship students, there are an estimated 1.08 million total students eligible for the Opportunity scholarship program. The cost of all Opportunity scholarships, including the \$202.9 million for grandfathered recipients and the \$5.38 billion for new recipients

based on family income, totals to \$5.58 billion. On a statewide per-pupil basis, the average scholarship cost amounts to \$5,162.

Reduction in state foundation aid

Under the bill, Opportunity scholarships will be financed by direct state payments instead of through a deduction of the resident school district's state foundation aid. Because the state foundation formula is based on enrollment, state foundation aid will decrease, as scholarship recipients will no longer be counted in their resident districts for funding purposes. To calculate the estimated reduction in state foundation aid, we made some simplifying assumptions due to uncertainty surrounding the parameters of the state foundation formula in FY 2019 and beyond.

Specifically, we calculated each district's average "basic formula aid" per pupil for FY 2017 using only the district's state share of the Opportunity Grant as well as Targeted Assistance, Capacity Aid, and the portion of Economically Disadvantaged Funds calculated using the base per-pupil amount of \$272, all of which were calculated without factoring in the formula's guarantee and gain cap provisions. Other categorical components were excluded for various reasons, including data limitations with respect to the formula components for which a scholarship recipient would otherwise generate funding for the resident district and the assumption that special education students will not take the Opportunity scholarship when the existing Jon Peterson Special Needs and Autism scholarship programs offer higher maximum scholarship amounts. On a statewide basis, average basic formula aid per pupil amounts to \$3,754 in FY 2017. This amount is not uniform among school districts due to the equalization effects associated with the calculation of the Opportunity Grant, Targeted Assistance, and Capacity Aid. Per-pupil amounts range from about \$300 for the wealthiest district to over \$10,000 for the least wealthy.

We multiplied each district's average basic formula aid per pupil by the estimated number of all Opportunity scholarship recipients in each district¹ to determine a rough estimate of the reduction in state foundation aid under the bill. Under the full participation scenario, state foundation aid decreases by \$4.32 billion annually.

Net state costs

Overall, we estimate the net increase in state costs of providing a scholarship to all eligible students to be \$1.19 billion annually after taking into account the reduction in state foundation aid and subtracting FY 2017 funding levels for direct state payments for income-based EdChoice scholarships and Cleveland scholarships, which are no longer necessary under the bill. The calculation of net state costs is summarized in Table 7 below.

¹ We excluded the existing Cleveland scholarship students whose scholarships are directly paid by state appropriations.

Table 7. Net Annual State Costs of Full Scholarship Participation (in millions)	
Item	Amount
Total estimated annual scholarship cost	\$5,579.6
Estimated annual reduction in state foundation aid	-\$4,322.1
Elimination of directly funded CSTP payments	-\$38.0
Elimination of income-based EdChoice payments	-\$31.5
Net annual state cost	\$1,188.0

In general, the annual net cost of the bill results from the state's obligation to pay the entire scholarship amount for scholarship recipients. In contrast, under current law, the cost of educating these students is generally a shared responsibility between the state and the student's resident school district. The state pays a portion of the foundation formula cost for the student depending on the relative wealth of the district, with the remainder supported mostly by local funds.² Statewide average per-pupil figures help put the overarching fiscal effects of the bill into perspective. On average, the state is paying \$3,754 in basic formula aid per pupil in FY 2017. Under the bill, it will be responsible for paying an average scholarship cost of \$5,162 per pupil, an average increase of \$1,408 per pupil, or 37.5%. While the state will spend less to educate some students through direct payments under the scholarship program than through the foundation formula (particularly students residing in lower wealth areas who are currently funded at per-pupil levels greater than the district's estimated average scholarship cost), by and large the state will pay more per student under the bill than would otherwise be the case.

Lower participation rate scenarios

In reality, usage of the scholarship program is likely to be much lower than 100% of eligible students, especially in the initial years of the program. Usage may start out relatively low and increase as more people become aware of the program. Therefore, this section of the analysis provides a range of cost estimates based on some hypothetical scenarios of lower scholarship participation in 2.5% increments, up to 10%. In each scenario, we continue to assume that all existing EdChoice and Cleveland scholarship students receive the Opportunity scholarship and add the number of public regular education students estimated to participate based on a uniform statewide rate. If the participation rate among newly eligible students in the Opportunity Scholarship Program were to start out at a 2.5% level, we estimate a net state cost of approximately \$45 million annually. This figure increases to about \$133 million annually if 10% of those eligible students receive the Opportunity scholarship. These scenarios are

² Students educated through most school choice programs are included in the resident district's student count for funding purposes and the payments to the educating school are deducted from the resident district's state aid based on the full per-pupil amounts applicable to the student (i.e., before the state share index is applied). Students educated through choice programs paid directly by the state are not included in their resident district's student count for funding purposes.

described in additional detail in Table 8 below. For reference purposes, we also examined the current overall participation rate of the income-based EdChoice scholarship, which we calculated to be roughly 4% based on the total number of first-time and renewing students in FY 2017 and the number of income-eligible public school students in the applicable grade levels.

Table 8. Net Annual State Costs of Hypothetical Opportunity Scholarship Participation Rates (\$ in millions)				
Scenario	2.5% Rate	5% Rate	7.5% Rate	10% Rate
Existing scholarship recipients	36,936	36,936	36,936	36,936
Income-eligible students	26,101	52,203	78,304	104,405
Total participants	63,037	89,139	115,240	141,341
Total annual estimated scholarship cost	\$337.3	\$471.7	\$606.1	\$740.6
Estimated annual reduction in state foundation aid	-\$222.7	-\$327.8	-\$432.9	-\$538.0
Elimination of directly funded CSTP payments	-\$38.0	-\$38.0	-\$38.0	-\$38.0
Elimination of income-based EdChoice payments	-\$31.5	-\$31.5	-\$31.5	-\$31.5
Net annual state cost	\$45.1	\$74.4	\$103.8	\$133.1

General effects on individual school districts

As described above, because the state's school funding formula is based on enrollment, school districts with students who take the scholarship are likely to lose state foundation aid. Over time, the reduction could be substantial, but ultimately would depend on student participation rates in the scholarship program. School district expenditures may decrease due to educating fewer students.

Education savings accounts

The bill requires ODE to establish and maintain an education savings account for each Opportunity scholarship student whose scholarship amount exceeds the student's tuition and fees. ODE must transfer the excess amount to the Treasurer of State, who is required to deposit the amount transferred into the student's education savings account.

The bill permits a student or parent to use the money in the student's education savings account for eligible future primary, secondary, and post-secondary education expenses, such as textbooks for high school and college courses, tutoring services, and tuition and fees at an institution of higher education.

A student's account must be maintained until either the student reaches 25 years of age or other eligibility requirements are not met, such as the student becomes a resident of another state or the money is used for an expense not allowed under the bill. Any money left in the account at that time must be transferred to ODE to be used for oversight and parental outreach for the Opportunity Scholarship Program.

The bill requires the State Board of Education and the Treasurer to adopt rules for administering the accounts. In addition, the Treasurer is required to issue an annual report to the Governor and the General Assembly on the total amount of money in

education savings accounts and interest credited to ODE. These requirements will increase the administrative costs of the Treasurer and ODE.

Pupil transportation

Under continuing law, students receiving the EdChoice and CSTP scholarships are entitled to receive transportation to and from the chartered nonpublic school by the student's resident district. The resident district is not obligated to transport a scholarship student if the travel time exceeds 30 minutes by school bus between the district school building to which the student otherwise would be assigned and the student's nonpublic school. In this case, a school district may offer a payment in lieu of providing transportation to the parent of the student. The bill requires recipients of the Opportunity scholarship to be transported in the same manner as under current law.

This provision may increase transportation costs for school districts if a district is transporting recipients of the Opportunity scholarship to nonpublic schools outside its regular bus route. However, the current transportation formula funds school districts based on either miles driven or the number of students transported, subject to a minimum state share floor. As a result, school districts may recoup a portion of the increased costs to transport scholarship students through the pupil transportation formula.

Other administrative requirements

The bill creates a number of administrative requirements for ODE and the State Board of Education in relation to the Opportunity Scholarship Program. A number of these provisions are required under current law for the operation of the EdChoice and CSTP scholarships, such as requiring ODE to conduct an application period for the Opportunity scholarship in generally the same manner as it conducts application periods for the EdChoice scholarship. In addition, the bill requires the State Board of Education to adopt rules that prescribe procedures for the administration of the Opportunity Scholarship Program. The administrative requirements under the bill may increase ODE's administrative responsibilities.